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C O N F I D E N T I A L SECTION 01 OF 02 VIENNA 001073

SIPDIS

DEPT FOR EUR/AGS, EUR/ERA AND EB/IFD/OMA
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SUBJECT: AUSTRIAN VIEWS ON THE STABILITY PACT, LISBON
AGENDA AND SERVICES DIRECTIVE

Classified By: Economic-Political Counselor Gregory E. Phillips for
reasons 1.5 (b) and (d).

Summary

[11.](#) (C) The GoA understands the political necessity behind the recent Stability and Growth Pact (SGP) reform and believes the SGP can still be an effective mechanism to ensure sound fiscal policies. Nevertheless, the GoA fears the recent reforms will lead to more "exceptional" spending by Member States. The GoA believes Member States should take greater ownership of the Lisbon Agenda, because the success or failure of the agenda depends on Member States' policies. A senior MoF official, Thomas Wieser, predicted the SGP reform would not lead to higher interest rates. He opined that the ECB is pursuing a relatively loose monetary policy, despite its rhetoric. Wieser added that low capacity utilization signified little risk of demand-pull inflation, and thus no reason for the ECB to raise rates. Wieser claimed the Council voted down the Services Directive "after 5 minutes of hell from Chirac." End Summary.

Stability Pact: "Still an Effective Tool, But..."

[12.](#) (C) During a recent meeting with Econ Unit Chief, Thomas Wieser, Director General of the MoF's Economic Policy and Financial Markets Division, insisted the Stability and Growth Pact (SGP) remained an effective mechanism to ensure sound fiscal policies. Wieser noted that there was an implicit, yet clear, understanding that 3.5% of GDP was now the reference point. Nevertheless, Wieser lamented that short-term political considerations -- primarily German -- had been the driving force behind the SGP reform. Wieser said that Germany could have and should have done more, especially in 1997-2001, to address economic problems stemming from German reunification. According to Wieser, the French and Italians were "all too happy to jump on board" and support revisions to the SGP.

[13.](#) (C) The GoA, in Wieser's opinion, viewed the SGP as a political commitment to "get your house in order in good times to weather cyclical downturns." Wieser pointed to the positive economic benefits the SGP had brought to individual countries, such as significantly lower debt burdens in Ireland and Belgium. With the new SGP, Wieser feared many member states would claim exceptions to allow for looser fiscal policies. Wieser said Poland may now "write off" the cost of its pension reform, approximately 1-2% of GDP. Wieser claimed the Austrian Ministry of Transportation had already contacted him to ask if the Euro 5-16 billion cost to complete the controversial Brenner Tunnel could now be "off the books."

[14.](#) (C) Wieser claimed he had expected the ECB and Member State national banks to criticize the SGP reform publicly. However, Wieser predicted the SGP reform would not lead to increased interest rates. Wieser characterized the ECB's monetary policy as relatively loose, despite its rhetoric. In Wieser's analysis, capacity utilization is low, so there is no risk of demand-pull inflation. Wieser maintained there is thus no reason for the ECB to raise interest rates at the moment.

Lisbon Agenda: "Member States Must Take Ownership"

[15.](#) (C) Wieser said there was a clear linkage between the aims of the SGP -- sound fiscal policies -- and the consequent achievement of many of the Lisbon Agenda goals, such as increased investment in R&D and infrastructure. Wieser noted that "if the Lisbon Agenda fails, the Member States fail." It is the Member States, not the Commission, that must take the tough policy decisions to foster increased growth and competitiveness. The Lisbon Agenda provides the umbrella under which the member states can initiate reforms in an atmosphere of positive peer pressure and mutual support.

Services Directive: "French Unyielding"

16. (C) Wieser admitted that the Services Directive was a peripheral issue for Austria, although Chancellor Schuessel publicly voiced his support for the Services Directive on March 4 and March 22. Wieser opined that the original draft already contained enough loopholes to prevent "social dumping." Wieser claimed the vehement opposition to the Services Directive had surprised the Commission, as initially, it had elicited scant comment. In contrast, Wieser claimed French President Chirac had given the other leaders "5 minutes of hell" during the Council meeting, lambasting the neo-liberal character of the Directive.

Brown